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SUBJECT: Commerce DepSec Sullivan Pushes KRG to Boost Transparency,  
Combat Corruption

This is a Kurdistan Regional Reconstruction Team (RRT) cable.

Summary

1. (SBU) Deputy Secretary of Commerce John Sullivan led the first Department of Commerce (DOC) sponsored trade mission to visit Iraq in more than 20 years June 22-25 in Erbil. Accompanying D/S Sullivan were representatives from nine U.S. companies who sought to explore profitable business opportunities in the Kurdistan Region and in greater Iraq. A separate delegation of 14 U.S. companies visited Erbil concurrently with the DOC trade delegation, in a trip organized by the U.S. Chamber of Commerce in Washington. During discussions with the Kurdistan Regional Government's (KRG) Deputy Prime Minister, the Chairman of the KRG's Board of Investment, and the KRG Ministers of Trade, Agriculture and Planning, D/S Sullivan stressed the importance of transparency in the formulation and execution of government budgets, as well as the necessity for KRG senior officials to combat corruption in both the public and private sectors. D/S Sullivan noted that the Kurdistan Region's strong natural and human resources should be "more than sufficient" to attract significant investment from the U.S. and other countries, and he pledged to educate U.S. businesses about the opportunities available in the Kurdistan Region. He stated, however, that the perception of corruption could materially reduce the flow of U.S.-sourced investment into the region. D/S Sullivan's message reinforced the USG's broader anti-corruption initiative and was especially timely, given the likelihood of substantial medium-term increases in oil-related revenues and business activity in the Kurdistan Region (see septel for further information on other aspects of the trade mission). END SUMMARY.

D/S Sullivan Delivers Strong,  
Consistent Message on Corruption

2. (SBU) During his meeting with KRG Deputy Prime Minister (DPM) Omar Fatah on June 23 in Erbil, D/S Sullivan discussed the corrosive effects of corruption upon the ability of nations and regions to attract foreign direct investment. He noted that the perception of corruption among KRG officials could materially reduce the flow of U.S.-sourced investment into the region, and he stressed the "importance that U.S. businessmen see fair systems of awarding government contracts, as well as transparent overall governance based on the rule of law." The DPM said the KRG recently created a committee to investigate allegations of official corruption and is "against corruption in all its forms." He noted that the KRG has possibly created a "misperception of corruption" through its efforts to help foreign investors find local partners and facilitate foreign direct investment. Fatah said the KRG is increasingly encouraging foreign investors to find their own local partners, and he welcomed the trade mission as a step in that direction.

13. (SBU) Fatah emphasized that "the U.S. military and people are liked, respected and considered as liberators in the Kurdistan Region." He also described the Kurdistan Region's "good security situation that is better than in the rest of Iraq." D/S Sullivan agreed with these points, and he also noted that the Kurdistan Region's strong natural and human resources should be "more than sufficient" to attract significant investment from the U.S. and other countries. He said the U.S. Department of Commerce would continue to educate American businesses about the opportunities available in the Kurdistan Region.

14. (SBU) During subsequent meetings with other senior government officials (i.e. the KRG ministers of planning, agriculture, and trade, as well as the Chairman of the KRG Board of Investment), D/S Sullivan repeated his message on corruption. He was joined during his private meetings with these KRG officials by Ambassador Charles Ries, Minister for Economic Affairs and Coordinator for Economic Transition in Iraq. D/S Sullivan's KRG interlocutors stressed their firm opposition to corruption, as well as their individual and collective commitments to ensuring transparency in the KRG's budgeting, government procurement, and corporate oversight processes.

15. (SBU) KRG Minister of Trade Mohammed Raouf, a leader in the Kurdistan Islamic Union party, admitted that corruption was present all over Iraq, and that the appointments of senior KRG officials based on political connections only made it worse. Raouf reiterated the KRG's commitment to fight corruption, but he found it unlikely that U.S. firms would face corruption-related obstacles in the Kurdistan Region. He said, "If a powerful, large U.S. company came here, no one would dare ask for a bribe. Let's have just one big U.S. company enter, and we'll see if they have problems. They

BAGHDAD 00002258 002 OF 003

won't." D/S Sullivan described bidding transparency and the absence of corruption as crucial aspects of any U.S. businessperson's analysis of whether to invest in a particular foreign country or region. Citing the U.S. Department of Justice's (DOJ) rigorous enforcement of the Foreign Corrupt Practices Act, he said, "U.S. businesses will only invest in the Kurdistan Region if they are convinced they will not face DOJ legal scrutiny regarding such investments."

KRG Ministers Describe  
Investment Priorities and Concerns

16. (SBU) The Chairman of the KRG's Board of Investment, Herish Muharram, described financial sector investment opportunities and said attracting foreign investments in the underdeveloped banking and insurance sectors remains a high priority. Muharram noted the propensity of Kurdish individuals to avoid banks, given past bank failures in the region, and he described most banks' reluctance to actively solicit private and corporate customers who are unknown to them. He said, "We're trying to build a bridge of trust between the banks and their customers." He cited the 18 percent rate of interest on bank deposits with the Central Bank of Iraq as both a disincentive to lending and an impediment to modernization of the banking sector. Muharram said the KRG is considering minority investments of "maybe 20 percent" with foreign bank and insurance companies seeking to establish branches in the Kurdistan Region, as a means to jump start foreign investment. He described a recent KRG initiative to attract investment from Iraqis who fled Iraq into neighboring countries. Muharram also noted that the KRG is creating special identification cards for Arab businesspeople from other parts of Iraq that will "ease their passage through all [KRG] checkpoints."

17. (SBU) The KRG Minister of Agriculture, Abdulaziz Tayeb, described the "decline in all agricultural sectors" in the Kurdistan Region over the past 20 years, as a result of Saddam Hussein's "destruction of villages and infrastructure that converted [Kurdish Iraqis] from producers to consumers." He said the region's farmers "have problems bringing production to market." Tayeb listed cold storage, canning factories, dairy production centers, and improvements in transportation infrastructure as the KRG's highest investment

priorities for the agricultural sector. D/S Sullivan noted that many U.S. companies have the products and expertise necessary to assist in these areas. Tayeb responded, "The [KRG] prime minister has issued an order to all ministries to give U.S. companies preferred access to business opportunities in the Kurdistan Region."

18. (SBU) KRG Minister of Planning Shwani told D/S Sullivan and Ambassador Ries that he expects Iraq's forthcoming budget supplemental amount to total approximately \$8 billion. From the KRG's expected \$1.3 billion (i.e. 17 percent) share of that amount, Shwani said the KRG has allocated \$300 million for electricity infrastructure and \$200 million for water projects, with the remainder to be disbursed to the three Kurdish governorates for "capital investment projects involving provision of basic services."

Comment

19. (SBU) Given their focus on increasing U.S. business activity and investment in the Kurdistan Region, KRG officials eagerly welcomed the DOC trade mission. The KRG expects substantial medium-term increases in the region's oil-related revenues and foreign business activities -- including significant investments from U.S. companies. These factors increased the importance of D/S Sullivan's clear and timely message to KRG officials regarding corruption. As in the rest of Iraq, the number of corruption cases successfully prosecuted in the Kurdistan Region remains negligible. The statutory and regulatory provisions intended to control corruption will require substantial revision to be effective. Tighter statutes and regulations must then be followed by much more aggressive enforcement actions. Despite public and private protestations by KRG officials against corruption, the KRG's financial inflows and outflows remain opaque, KRG officials are not required to publicly declare their assets or sources of income, and RRTOffs are aware of no corruption convictions against KRG officials during at least the past year. The KRG also lags the central government in developing initiatives to combat corruption. RRT Erbil and Embassy Baghdad will follow up with the KRG to pursue more vigorous action from the KRG PM's anti-corruption committee and support other such initiatives.

BAGHDAD 00002258 003 OF 003

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